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THE TREND OF BUSINESS AND PRICES IN THE WATER WORKS FIELD¹

BY EDGAR J. BUTTENHEIM

It certainly is a troublesome matter to arrive at any general consensus of opinion on the subject of business prospects and price maintenance. But the gist of the matter, as the author sees it after using up considerable mileage during the past few months and talking with officials and manufacturers in various parts of the country, is about as follows:

There are all kinds and quantities of prospective work in sight in the water works field, along the line of new installations to be made and improvements under way, etc., but the trouble is there is entirely too much hesitation and disposition on the part of the buyers to "wait a little longer" in the hope that next week or next month, or the next month after that, there will be a worth-while price reduction.

Of course, it is reasonable to expect that reductions may be made in certain commodities, but do not make the mistake of judging the whole situation from one particular instance which you have in mind. Do not say, as one municipal official did, that because he was able to buy asphalt and road oil at pre-war prices, he was going to recommend that the city wait to make its purchases of pipe, valves, pumps and water meters until prices in these lines should come down to their old level. That particular city official has a long wait coming to him. When you find prices taking a marked downward course in any line, under the present circumstances, you are likely to find it a line of goods in which labor costs are not a big item of production. In the manufacture of water works machinery and supplies, on the other hand, with labor costs figuring from 75 to 95 per cent, there is not much opportunity for any considerable lowering of prices, unless skilled labor accepts a decided wage cut, of which there is no special indication at present.

What we must all do, if we desire to see industry back on a business-like basis, is to look the situation squarely in the face and realize that

¹ Read before the Buffalo Convention June 11, 1919.

we are definitely on the basis of a new price level, and that the old price schedules on most lines have passed into ancient history as definitely and generally as the horse car. The fact that you used to buy milk for 4 cents a quart and could get good shoes for \$3.50 per pair is a historical fact, but it has no more bearing on present day conditions than the size of your present hat bears to the size of the one you wore when you were five years old. That little hat used to go around your head, but it won't now, and that is all there is to it; nothing is to be gained by wishing it would still fit you.

As soon as this new basis of values is universally accepted, business will pick up and prosperity will be general, but as long as the majority of the people are playing the waiting game on their purchases, general prosperity will not come. "Buy what is needed and buy now," is the only sensible slogan.

Keeping in touch with the manufacturers and consulting engineers in the water works field, as well as with some of the municipal and water works officials themselves, the author feels fully justified in stating there is every reason why we should all feel sensibly optimistic at the present time. In support of this statement, he will quote a few comments made to him recently by some of the large manufacturers and important consulting engineers in the water works field who have to keep their fingers constantly on the pulse of the situation.

One manufacturer whom you all know sums up the matter as follows:

From our outlook in the water works field, the volume of business is rapidly growing each day. Improvements that have been held back for the last two years as well as new prospects are being rapidly pushed forward. Up to the present time the volume of business that has been placed in our particular line has been small, but the prospects seem to be growing brighter daily.

Nevertheless, the actual benefit will only begin to be arrived at towards the end of the year, by reason of the fact that after reaching determination to proceed, many cities have had to prepare their plans and specifications, which as you know, will consume anywhere from two to three months or more, depending upon the magnitude of the contemplated work. This means a number of contracts coming through so late in the season that much of the work will carry over into next year.

In regard to the likelihood of prices remaining on the present basis, there seems to me little reason to expect any material decline for a considerable period of time. There may be some slight additional fall in prices, but if so, it seems to me that they will recover very quickly by reason of the fact that as soon as industries get into full swing, there is going to be as great a short-

age of labor in all probability, as there was a year or more ago. This in itself is bound to keep prices up, and the prospects for its continuance over a long period seems to me very considerable.

Some industries, of course, are picking up more rapidly than others, but in one particular city that we happen to be doing work in and have been doing work in during the entire war period, labor is today scarcer and higher paid than at any period during the war, although immediately after the armistice was declared there was for two or three months a considerable surplus, and ordinary common labor could be secured at 20 to 25 per cent less than during the war period. At the present time in this same locality labor is from 15 to 20 per cent higher than during the same period. This particular city is an automobile center entirely, but should all other lines of industry recover in anything like a normal proportion, labor will command the situation.

A consulting engineer in the West reports increasing activities in this way:

After an experience of over twenty years in water works matters, we find that there is more actual construction work in progress and more prospective work in view now than at any time in this twenty year period. Municipalities have held off extensions and improvements for various reasons, until many water works plants are in such condition that enlargements, rehabilitation and repairs are absolutely essential and necessary, and these jobs are now going ahead; and in addition to these, there are new projects that have been holding off for a few years because of war conditions, high prices, scarcity of labor, etc. We find the unusual condition of having to reply to letters every day declining engagements that a few years ago would have been very attractive. With us it is unnecessary to do anything to stimulate business, but it is merely a question of being able to handle the more important engagements and take care of work where we made preliminary estimates and reports a few years ago. The writer can recall that twenty years ago there was one water works plant built in the state of Missouri and two built in the state of Kansas, and we are safe in saying that now there are at least thirty new projects under construction in Kansas and about the same number in Missouri; and besides the projects under construction a much larger number are contemplating improvements. Our work extends over most of the states from the Mississippi westward, and we find this condition exists in nearly all of the states.

One man who has been a close student of the pipe situation for years says:

For the past four years the production of cast iron pipe has been considerably below normal; last year it was approximately 250,000 tons, or one-third of the normal average for ten years. During the first three months of this year, production reached only 50,000 tons, or approximately one-fourth of normal. Since the first of April, there has been some increase in inquiry, but actual sales have not come up to expectations.

"We appreciate of course, that the memory of \$20 a ton cast iron pipe is fresh in the minds of many buyers, and their natural tendency is to hesitate in expectation of an early return to something nearer this price level than at present obtains, but to this expectation we have no reply, except that in the future, as in the past, the cast iron pipe industry will be governed altogether by general economic conditions. The advance in labor has affected the "spread" on cast iron pipe more seriously than any other metal product, (by "spread" I mean the margin between the cost of pig iron and the selling price of the pipe) this for the reason that there is no other foundry product produced in such large tonnage where manual labor is such a large factor. This is a very important point in considering the question of the likelihood of prices remaining on their present basis.

According to my figures, there is vitally needed approximately 2,000,000 tons of cast iron pipe to bring the water systems of our cities and towns up to their needed efficiency, and this tonnage, added to the normal demand, cannot be produced by the plants now in existence.

One experienced water works engineer puts it like this:

So far as this office is concerned, we have prepared more plans during the past six months than ever before, but there seems to be a tendency on the part of some municipalities to delay construction work until there is a substantial lowering of prices. This was more marked a month or six weeks ago than at the present time. Just at present there is a tendency to go ahead with new work, as officials are apparently realizing that prices are not to be reduced materially for many months or possibly years to come. Any reduction in prices must be a gradual one, and it is doubtful if the proposed work for which plans have been prepared can wait for any appreciable lowering of prices. The indications at the present moment are that in the next few months there will be a marked increase in water works construction.

On the other hand, and lest you should think the author is only selecting favorable comments, he will admit that once in a while you meet a man who cannot yet see the light ahead. For instance, one manufacturer says:

The present conditions, from our point of view, may be somewhat colloquially, but at the same time expressively, classed as "rotten," and the outlook for the future kaleidoscopic. Anyone who can correctly interpret the handwriting on the wall and forecast the future, is some wizard and entitled to make a million. We do not find ourselves in that class.

Here and there you find an engineer who thinks that the waiting game is a wise one, as shown by this communication:

I get the impression from association with owners of water works and engineers that there is a strong tendency to curtail future expenditures as much as possible while prices remain at their high level. Some of the companies with

which I am associated have a program of nearly \$1,000,000 expenditure that should be completed within a year from date, but this will undoubtedly be delayed on account of high prices and difficulty of financing.

As a contrast to this, another equally brainy engineer says:

In my opinion the public is rapidly becoming convinced that comparatively high prices for both labor and material will continue for a considerable number of years to come, and consequently the expected activity may be seen soon in water works construction.

Here is a manufacturer who feels fairly cheerful. He says:

The months of January and February this year were rather quiet. Business began to pick up in February and through February, March, April and May there was a good volume of business booked. Taken as a whole, I am of the opinion that the year 1919 will be a very good one, as far as this company is concerned.

Another manufacturer thinks greater efficiency is necessary. He says:

We can see no encouragement as to price reduction for some time to come, for while some materials have come down, the cost of labor has not, thereby making the cost of the finished product just as much and possibly more than under war conditions. Relief in that direction, in our opinion, will only come when the manufacturers throughout the country have been given an opportunity to reorganize their forces (which were mostly shot to pieces during the war) in such manner as to increase production. In other words, to get back to pre-war conditions, the volume of business must be double or treble in order to produce the same results as were formerly enjoyed under normal conditions.

Here is a man who puts it up to Washington:

My opinion is that if Congress gets together soon and passes the necessary legislation which the country is awaiting, that by the end of July, or early in August, the water works field will receive a big boom and business should be at that time at its best. Regarding prices: Material, I believe, has gone as low as it is possible to go with the present labor conditions prevailing.

This man does not look for prices to come down in two years:

Orders for water works material have been very slow to date this year, although we are anticipating an unusual volume before the year is out. To our mind, there can be no material reduction in prices this year and possibly none next year, and the sooner everyone recognizes this fact, the better it will be for all concerned.

One of the big dealers in water works supplies gives his opinion as follows:

I cannot see how, after investigation of existing data on the situation, one can be anything but optimistic as to the future as far as the building of new water works and the extension of present systems is concerned.

Since 1914 there has been practically no building or extension of water works. For the last three years, particularly, there has been almost nothing done along this line. The country is exceptionally rich at the present time. When a town has money and hasn't water, it is going to get it. This will require a great many new water works in small towns. Farming communities will be particularly well off this year, and there will undoubtedly be a lot of water works construction through the West and South.

In places where water works are already installed, there have been no extensions to speak of, in spite of the fact that the population has kept increasing. The demand for extensions is there and the wealth is there, so the water supply systems *must* be enlarged. We personally expect three or four years of more water works business than the manufacturers will be able to handle.

The foregoing statements may be considered as fairly representative of the best opinion in the water works industry and the author believes that we can feel certain of two things; that the manufacturers in the water works field are going to be very busy, and that prices in general are going to remain on the new level